

Message Text

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ACTION NEA-16

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-03

INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08

CEA-02 L-03 H-03 DODE-00 PA-04 USIA-15 PRS-01 DRC-01

/159 W

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R 190600Z JUL 74

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 2772

INFO AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

AMEMBASSY DACCA

AMEMBASSY KATHMANDU

LIMITED OFFICIAL USE NEW DELHI 9620

E.O. 11652: N/A

TAGS: EFIN, IN

SUBJ: THE IMPACT OF THE ANTI-INFLATIONARY MEASURES: WAITING
FOR THE OTHER SHOE TO DROP

REF: NEW DELHI 9057

1. WHILE THE TWO ORDINANCES OF JULY 6 TO FIGHT INFLACTION -- ONE LIMIT-

ING IMMEDIATE PAYMENT OF WAGE INCREASES AND OTHER LIMITING
DIVIDEND PAYMENTS-- CAN SCARCELY BE DESCRIBED AS POPULAR,
THEY HAVE BEEN ACCEPTED BY THE INDIAN PUBLIC BROADLY
AS AT LEAST TRYING TO DO SOMETHING IN A SITUATION WHERE SOMETHING
HAD TO BE DONE. NOBODY SEEMS TO EXPECT THEM TO ACCOMPLISH VERY
MUCH BY THEMSELVES AND THERE IS AN ATTITUDE OF WAIT-AND-SEE
WHAT THE OTHER PROMISED MEASURES WILL BE. (ANOTHER WAS ANNOUNCED
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ON JULY 17: A QUITE MILD SCHEME FOR COMPULSORY

DEPOSITS BY HIGHER INCOME GROUPS WHICH WE REPORTED IN NEW DELHI 9604.)

2. ORGANIZED LABOR IS UNHAPPY THAT IT WAS SINGLED OUT IN THE INFLATION FIGHT, AND THERE HAVE BEEN SOME STROTORDS AND THREATS OF STRIKES. TO SOME EXTENT THESE ARE FOR THE RECORD. FURTHERMORE, LABOR ITSELF IS DIVIDED, WITH PRO-CONGRESS ELEMENTS POINTING OUT THE NEED FOR LABOR TO MAKE TEMPORARY SACRIFICES FOR THE GOOD OF THE COUNTRY. LABOR IS ALSO DEMORALIZED AFTER THE FAIL STRIKE AND AWARE THAT STRIKES WOULD NOT BE POPULAR IN THE PRESENT ATMOSPHERE OF CRISIS. IN THE END, LABOR WILL PROBABLY GO ALONG, BUT ITS UNHAPPINESS WILL GROW IF SOME WAY IS NOT FOUND TO MAKE WEALTHY FARMERS AND OTHER GROUPS THAT HAVE DISPROPORTIONATELY REAPED THE BENEFITS OF INDIA'S MODEST ECONOMIC GROWTH ALSO MAKE EFFECTIVE SACRIFICES.

3. THE DIVIDEND LIMITATION HAS THROWN FINANCIAL MARKETS INTO A TAILSPIN. THIS TAILSPIN WAS SEVERELY AGGRAVATED BY CONFUSION AND CLUMSINESS IN DRAFTING THE ORDINANCE WHICH HAD SUBSEQUENTLY TO BE CLARIFIED WITH AN AMENDING ORDINANCE TO THE EFFECT THAT THE LIMITATION -- IN MOST CASES 12 PERCENT OF PROFITS -- APPLIED TO POST TAX PROFITS. THIS, OF COURSE, MADE THE LIMITATION BITE HARDER AND FURTHER DEPRESSED THE ALREADY BATTERED STOCK MARKET (SEE BOMBAY 1527 AND 1613). IT ALSO LED J.R.D. TATA TO CALL THE ORDINANCE "TOTALLY DISASTROUS". MR. TATA IS NOT GIVEN TO HYPERBOLE, BUT ON THE FACE OF IT, THIS STATEMENT WOULD SEEM TO BE EXTREME, ESPECIALLY SINCE THE MEASURE INCREASES THE LIQUIDITY OF THE FIRMS AND HENCE THEIR FUTURE DIVIDEND POSSIBILITIES, A POINT THAT MRS. GANDHI MADE IN BANGALORE (SEE NEW DELHI 9347). OUR SOURCES POINT OUT, HOWEVER, THAT SELECTIVE MONETARY CONTROLS CAN BE APPLIED AGAINST THIS LIQUIDITY, WHICH KNOWLEDGE CONTRIBUTES TO INVESTOR UNCERTAINTY. FOR THE MOMENT, AT LEAST, THE INVESTMENT CLIMATE, BOTH FOR DOMESTIC FUNDS AND FOREIGN CAPITAL, IS VERY SOUR.

4. THE POLICY MEASURES THAT LIE AHEAD WILL BE CRUCIAL. THE EFFECTS OF THE MEASURES ADOPTED SO FAR, INCLUDING THE MOST RECENT COMPULSORY DEPOSITS, WILL DEPEND MORE ON THEIR PSYCHOLOGICAL IMPACT THAN ON THEIR DIRECT LIMITED OFFICIAL USE

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ECONOMIC BITE. THE PSYCHOLOGICAL IMPACT IN TURN WILL ULTIMATELY BE HEAVILY DEPENDENT ON WHAT WILL -- OR WILL NOT -- BE ANNOUNCED IN THE FUTURE AND THE SERIOUSNESS AND EFFECTIVENESS OF THE GOVERNMENT IN THE IMPLEMENTING ITS ACTIONS.

5. MRS. GANDHI TOLD A US NEWSMAN (NATIONAL PRESS CLUB PRESIDENT CLYDE LAMOTTE) THIS WEEK INFLATION WAS HER OVERWHELMING CONCERN, THAT SHE WAS DETERMINED TO ACT TO BRING IT UNDER CONTROL,

AND THAT SOME OF THE STEPS SHE WOULD TAKE WOULD BE EXTREMELY UNPALATABLE AND COULD EVEN JEOPARDIZE HER CONTINUATION IN POWER. (COMMENT: WE READ THIS LAST COMMENT AS HYPERBOLE, BUT LAMOTTE NOTED THAT THE ECONOMIC SITUATION WAS THE ONLY TOPIC WHICH CAME UP DURING THIS HALF-HOUR INTERVIEW WITH THE PM AND OBSERVED SHE SEEMED VERY SERIOUS IN HER REMARKS.)

6. THIS MESSAGE DRAWS HEAVILY ON THE REPORTING TO THE EMBASY BY THE CONSULATES GENERAL IN BOMBAY, CALCUTTA, AND MADRAS. KREISBERG

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